RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Jan. 2 DJIA 1927.31; PTI 2430; A-D Ratio -7.86
Jan. 9 DJIA 2005.91; PTI 2472; A-D Ratio -5.87

THE MARKET: There are two ways to do it in this business. One: you read the financial publications, the business journals, the corporate bulletins and the economic reports, and you arrive at a conclusion about stocks and the economy. On the basis of those conclusions, you either invest or divest. In other words, you make a decision about what stocks and the economy are going to do based on fundamental economic and financial research.

The other approach is known as the technical approach. The technician takes the position that no amount of fundamental research or study can tell him what stocks or the market are going to do. The technician believes that there are just too many market reports to read, too many items to consider, and that no man can possibly absorb all these variables and then come to a valid conclusion about the market.

But the technician is not helpless. He has other tools. The technician simply depends on the market itself to tell him what is happening and what may lie ahead. Of course, the theory behind this approach is that the market represents the sum total of what everyone knows about anything connected with business, finance, or the economy. The mysterious unconscious of the market "knows" it all -- it knows more than any man or group of men.

So the technician has a single task. That task is to "read" the various market averages and indices, to try to make sense out of that data, and then to BELIEVE (which is not always easy) what he sees.

As all of my subscribers must know by now, I am basically a technician in that I am guided about 80% by what the market is telling me (the other 20% is my intuition). True, I spend an awful lot of time reading the various newspapers, magazines, and business reports, but don't let this fool you. I am largely guided in these reports by what the market is telling me.

Since the last Letter, five items of outstanding technical significance have occurred. The first took place on December 31, the last day of the year. On that day the advance-decline ratio on the NYSE broke to a new low — its lowest point since the peak which was set back on April 21, 1986. I discussed just this possibility in the last Letter (page 2). In that report I said that we would "watch the weakest element in the market equation. When the weakest element exhausts itself and finally turns up, the market is ready to advance."

I continued, "In the current instance, the weakest element is the A-D ratio." I then stated that the A-D ratio had sunk to a new low, but "the new low in the A-D was NOT CONFIRMED by the Dow or, for that matter, by any of the major stock averages. In fact, the Dow would have to drop 160 points (below 1755.20) in order to confirm!"

Finally I wrote, "Thus we now have a major downside non-confirmation between price and breadth. Many important declines have reversed (to the upside) following price/breadth non-confirmations." I then cited bullish examples of downside non-confirmations such as Dec. 1957, Sept. 1961, Oct. 1962, Nov. 1967, July 1970, Oct. 1972, and Nov. 1976.

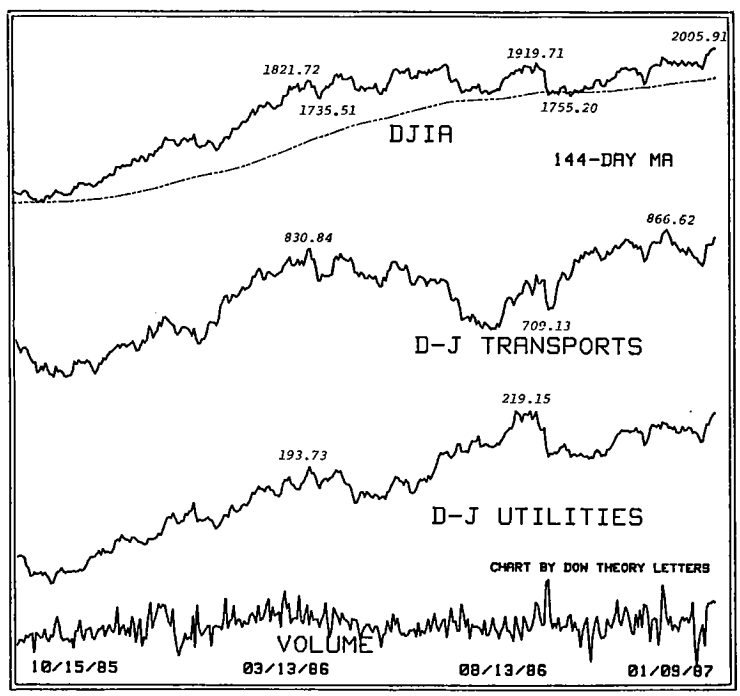
TO THOSE BULLISH PRICE/BREADTH TURNING POINTS WE MUST NOW ADD THE BULLISH DOWNSIDE NON-CONFIRMATION OF DECEMBER 31, 1986.

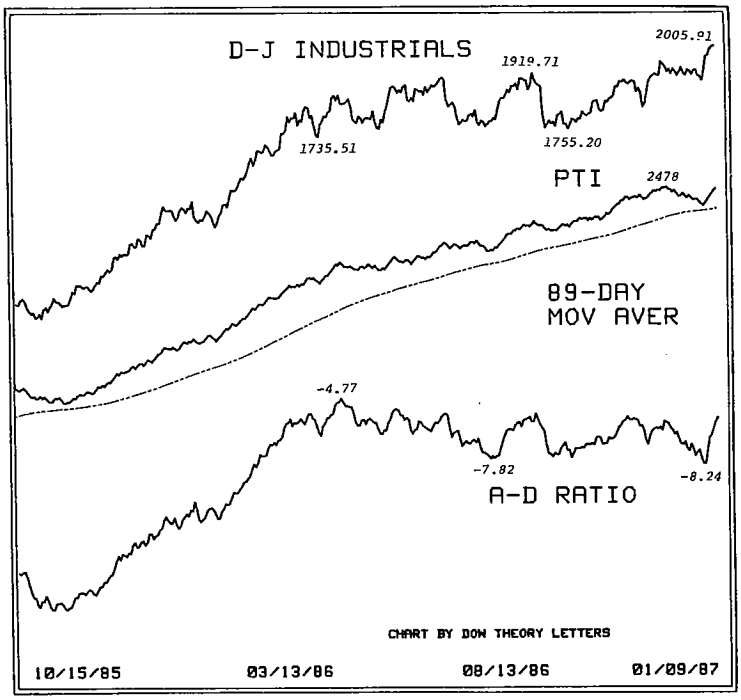
The second technical achievement: On January 5 the Dow surged 44 points (a record one-day point rise) to a new bull-market high. The new Dow high was not confirmed by the Transportation Average. Despite the non-confirmation, the Transports, Utilities, and all the other major indices and averages advanced in harmony with the Dow. Breadth was huge on the upside and volume rose dramatically.

Many analysts pointed with suspicion to the fact that the Transports did not push to new highs with the Dow. But the important factor is that the Transports did move in that direction (under Dow Theory it is not necessary for the Averages to confirm on the same day or even the same week or month).

All of us would like perfection in the market, but unfortunately we seldom get it. It would have been perfect if the Dow, the Transports, the Utilities and the A-D had all burst out to new bull market highs simultaneously, but such ideal moves are few and far between. The important thing, again, is that everything moved IN DIRECTION, and that direction was up. This is a bull market, and in due time all the various averages and indices should (and probably will) confirm on the upside. Remember my constant reminder -- we give the primary trend (in this case the bull trend) EVERY BENEFIT OF THE DOUBT.

The third technical achievement occurred on January 7. On that day the bull market put on an impressive and most convincing performance. On January 7 new all-time highs were recorded by the Dow Industrials, the D-J 65 Stock Average, the NYSE Composite, the NYSE Industrials, and the S&P 500, the S&P 400 Industrials and the S&P 100 Index. By the close of January 7 even the meanest and stubbornest bear would have had to admit that the primary bull market was in force. To insist otherwise would border on the ridiculous.





To the list of impressive technical achievements must be added the power of the breadth in early January. On January 2 advances on the NYSE were 1474. On January 5 (the second trading day of the new year) advances were 1594. On January 5 advances were 946, on January 7 advances were 1206 and on January 8, advances were 1155. The average number of advances for the five opening days of 1987 was 1275. This is one of the most powerful upside breadth "send-offs" of which I have any record.

For comparisons, the five-day surge off the historic 1974 low showed a combined A-D ratio rise of 1.87 points. The five-day rise off the 1976 low showed a rise of 2.08 points. The five-day rise off the great 1982 bottom showed a combined A-D ratio rise of 1.81. Now note this -- the five-day surge of January 2-8 showed a combined A-D rise of 2.24. Thus, the opening days of 1987 have seen a surge in breadth that has been historic for its sheer power.

Technically, the INITIAL THRUST of a market movement can provide hints as to the extent of the entire forthcoming movement. If this observation possesses any validity (and I believe it does), then the market here in 1987 is telling us that dramatic events are in store for us. What could those events be? Unfortunately, the market provides no hints as to what it sees ahead.

The fifth technical achievement came on January 8. On this day, for the first time in history, the D-J Industrial Average closed above 2000 -- at 2002.25 to be exact. If you remember, the Dow battered against the 1000 level for 17 frustrating years, from 1966 to 1983. In 1983 the Dow thrust decisively above the 1000 level, and here, four years later, the Dow has literally doubled in value.

It is of interest that from 1906 to 1924 (18 years) the Dow battered against the 100 level. In 1922 the Dow surged decisively above the 100 level. By late-1929 (seven years later) that Dow had risen to 381. Will history repeat? It's an interesting thought, but from today's vantage point it seems well nigh impossible (mmmm, or does it?).

Through all of this, I must say that I am pleased about one item. That item is my Primary Trend Index (PTI). I call this my "fail-safe" indicator. I also call it the indicator that keeps Richard Russell out of trouble. As I explained in the last Letter, my policy is always to stay ON THE RIGHT SIDE OF THE PTI. I developed the PTI back in the late 1960s and I began tabulating it on a daily basis in early 1971. The composition and construction of the PTI is a secret -- it's the only secret I've got in this business. The reason I keep it a secret is that as long as nobody knows what the PTI is and how it's constructed, it's probably going to work.

In the stock market, all too often it's a case of "too many cooks spoil the stew." Translation: when too many people follow any particular technique or device, that technique or device ceases to work and you can forget about it. I don't want that to happen to my PTI.

One advantage of working with the PTI is that it provides the world's easiest way to invest. To invest with the PTI you don't have to be brilliant; you don't have to be a genius. In fact, all you really have to know is up from down. If the PTI is ABOVE its moving average (MA) -- invest in good, dividend-paying stocks. If the PTI is BELOW its MA, be out of the market or in cash. It's as simple as that.

Fortunately, the PTI is not prone to whip-saws (i.e., a rapid series of successive buy and sell signals). Whip-saws do occur, but not often. In the majority of instances, once a buy or sell signal is given by the PTI, that signal tends to remain in force for many months or even years. This is particularly true following the reversal of a long-established PTI trend and the start of a new trend.

At any rate, turning to the page 2 chart you can see that toward the end of the year 1986 I got a bit worried. The PTI had hit a record of 2478 on December 2. It then went into a decline. By December 31 the PTI had corrected down to 2423, and this was only eight points ABOVE its 89-day moving average. Then happily, on January 2 the PTI turned up, and since then the PTI has plowed relentlessly higher, rising a very fat 39 points in five days. As of this writing, the PTI remains in the BULL TREND it has been in ever since late 1984.

I want to refer again to the price/breadth divergence, a phenomenon which I discussed in great detail in the last Letter. As this is written, the A-D ratio has still not confirmed the Dow. The A-D ratio measures the advancing or declining action of the majority of stocks on the NYSE. So when I say that the A-D ratio has not confirmed the Dow, I am saying that the majority of stocks on the NYSE has not been keeping up with the high-grade stocks as represented by the Dow.

The stock market loves harmony. The stock market loves everything to go TOGETHER -- like the singers in a good chorus or the various ingredients in a fine dinner. And when there is a discrepancy or divergence, the stock market doesn't like it. But as I have said so often, you have to give a bull market time. Not all good things happen in a day. Anxiety and impatience are allies of the bull in that they tend to keep worrying and doubting investors on the sidelines.

So on that basis, I have simply crossed my fingers and waited, believing that in due time the A-D ratio would confirm the Dow. As this is written, that still has not happened, but certainly the tremendous upside breadth surge of January 2 to 8 has been most encouraging in this regard.

During the whole period since last April (this is when the price/breadth divergence began) I have remained bullish on the market. I have remained bullish for the following reasons: (1) because the PTI has remained in a stubborn bull trend; (2) because my subscribers were positioned in high-grade or Dow-type stocks, and these were the kinds of stocks that were making new highs; (3) because I thought that perhaps the new tax bill might be creating abnormal selling pressure, selling that would end with the termination of the old tax law on December 31, and (4) because as far as the Dow Theory is concerned, the market has remained in a primary bull trend.

So far, my bullishness has been on the mark. But I want to stress this point. The divergence between the Dow and the A-D ratio MUST BE RESOLVED. And for a happy resolution, we must see the A-D ratio rally above its April 21, 1986 high (thereby wiping out the divergence). Somewhere ahead that has got to

happen. If it doesn't, then 1987 is not going to be the pleasant year everyone is talking about.

SUNDRY THOUGHTS: If there's one thing I've learned in the advisory business (and believe me, I learned it the hard way), it's this -- don't get bearish too soon. Some of the advisory services that I read regularly have been bearish for a year or two years or even longer. All during 1986 when the Dow and the high-grade stocks were rising, these advisors were warning about the market, keeping their readers out and even encouraging them to short various stocks or options. The results of this policy have been discouraging and in many cases disastrous.

One of the dangers of becoming bearish too soon is that the analyst who is bearish too soon loses credibility. For when the time comes to turn unhedgingly bearish, this fellow has usually lost his audience (or else his followers are unwilling to act on his warnings). The advisor has shouted "Wolf!" too early and too often.

What about the Dow Theory? What is it saying here? The answer is that the Dow Theory is saying that the last JOINT action of the Averages was the breakout of both Industrials and Transports to new highs on December 2. The breakout was simultaneous (i.e, on the same day) and on huge volume. That joint breakout re-confirmed the primary bull trend. Frankly, I was surprised, in view of the power of that joint breakout, that there was no immediate upside follow-through. But I didn't have a long wait. The follow-through came with the opening of the new year.

On December 5 the Dow broke out to close at a new all-time high. That new high was not confirmed by Transports, and I got the usual number of worried calls, "What does it mean?"

To answer this question I always go back to one thought, and that is that once the primary direction of the market is determined under Dow Theory, it is good policy to give that primary trend every benefit of the doubt.

In other words, applying this rule to the current bull market, you don't want to jump the gun and bail out on the basis of every non-confirmation or technical discrepancy. It is a strange and ironic commentary, but the more you know in this business, the more items you will see that are going to worry you. Thus, if you're not careful you may miss the forest (i.e., the primary trend) for the trees (i.e., the minor technical problems).

The big picture all during last year (and still the big picture) is the fact that this is a bull market. And that's exactly why I place the pictorial bull in the box on page 2. I feel that if my subscribers actually SEE that bull, it will somehow help them to believe in the bull market.

In Letter 954 I discussed upside Dow "counts" via point & figure charting, and I showed that at that time the Dow projected a count to 2220. Whether that will actually come about, obviously, no one knows. But upside counts are most apt to be fulfilled during bull markets (just as downside counts are most apt to be fulfilled during bear markets).

INVESTMENT POSITION: The bull remains in the box for all the reasons discussed in the first part of this report. Consequently, we sit tight with our blue-chip stocks and keep our eyes glued to the still–bullish PTI.

Some bull markets are driven by the sheer power of forthcoming corporate earnings (those are the ones I like best). Some are driven by the power of declining interest rates. Some are driven by the excitement of the crowd, and some are driven by oceans of newly-created money (i.e., rising liquidity). The last, in my opinion, is probably what we are experiencing today.

And it's not just US liquidity I'm talking about, it's world liquidity. The fact is that Japanese, Dutch, German, Swiss, and Arab money is pouring into the US markets, sucking up American stocks, bonds, and real estate like a giant vacuum cleaner. Intensifying the trend, the weak US dollar makes all our lovely US assets look like chocolate kisses lined up in a giant candy store.

"What'll I buy?" asks the new subscriber. And my answer is that if you haven't bought any stocks yet, I'm sort of at a loss. I've been listing stocks to buy month after month, and here's the Dow finally above the 2000 level. At this point, if you haven't done anything and you've got to do something, I guess I'd recommend one of the closed-end funds listed on the NYSE, a fund such as Tri-Continental, Adams Express, or Lehman Corp.

Oft-recommended municipal bonds have been doing well over the past few years, and even here the pickings are getting thin. When I first started recommending the munis, you could buy all you wanted in the A- or AA-rated area at yields of 8% and even 9%. Now the yields on AA bonds have dropped under 7% and even these are hard to find.

From bitter experience I've learned that it's better to miss a move then to come in late on a move. Remember, there's a big difference between a loss and a profit that you might have made but didn't. The market is ALWAYS THERE, but unfortunately, that's not true of your capital (particularly if you let greed and impatience take over).

PLACES TO WATCH: I've shown this chart before (see page 4). It's a very valuable chart published by my friends at Investment Quality Trends (7440 Girard Ave., La Jolla, CA 92037). IQ Trends runs statistics on 350 blue-chip corporations, all listed on the NYSE. IQ Trends then classifies each of these stocks as being either overvalued or undervalued. The primary gauge is yield, and as far as I'm concerned yield is a valid gauge.

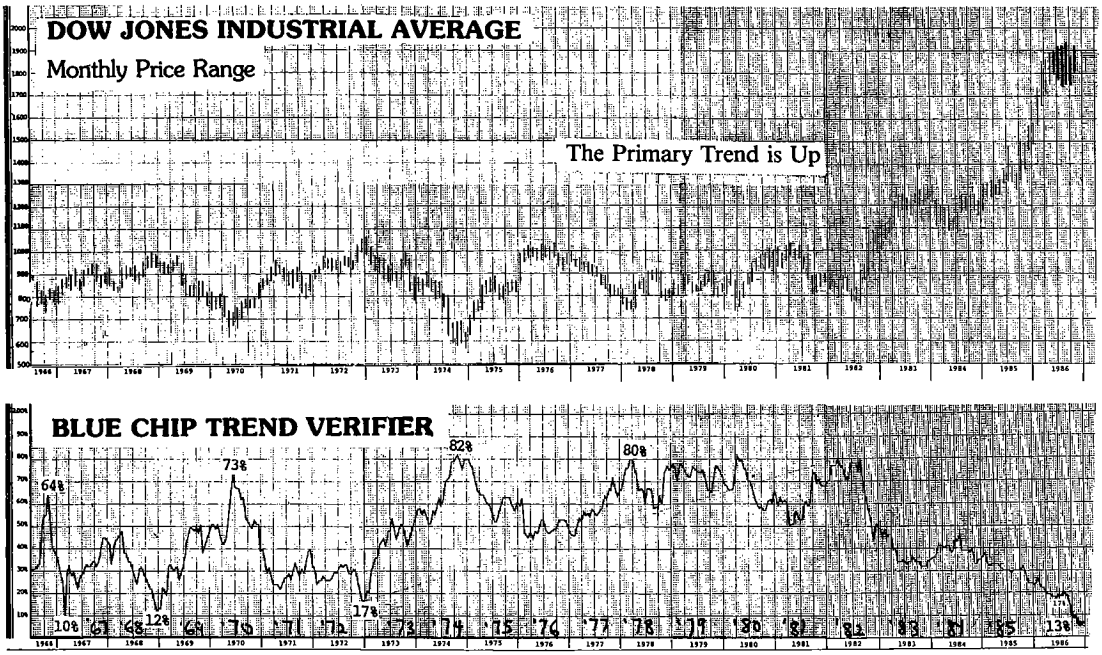
The study deals with the percentage of undervalued stocks in the IQ Trends stock universe. When the undervalued percentage gets up as high as 70%, the stock market is usually in a bargain area. When the undervalued percentage shrinks to around 10% to 15% (i.e., few bargains around), you've got to be careful. Many severe corrections and bear markets have started in this "scarcity-of bargains" area. Check the chart when the undervalued percentage drops to below 17% and see for yourself what occurred in the past.

The latest (mid-December) count shows that the undervalued percentage was 17%. This was up a bit from a September 1986 extreme low of 13%, but the figure suggests that stocks today are in a "thin ice" or "cross your fingers" area.

All of this brings up a rather large question in my mind. The question is this: with the number of blue-chip stocks that are currently undervalued down in the relatively bearish 17%, how are the "big stock averages" (i.e, the Dow Industrials, the Dow 65, the S&P 500, the S&P Industrials, etc.) going to make further real progress?

And I really don't know the answer to that one. There are four bullish possibilities. (1) Earnings for the big stocks will expand dramatically, dividends will be raised across the board, and many of the IQ Trends stocks will move back into the undervalued area. I happen to think there is a slim chance of this happening.

(2) The force of the bull market will simply drive the blue chip stocks up to rarefied heights seldom, if ever, seen before. Regardless of price/earnings ratios, values, or yields, there will be such a frenzy to "invest in the best of America" that all normal and historical yardsticks will be jettisoned. I think there's at least a chance that this will occur (in some ways, it's beginning to happen now).

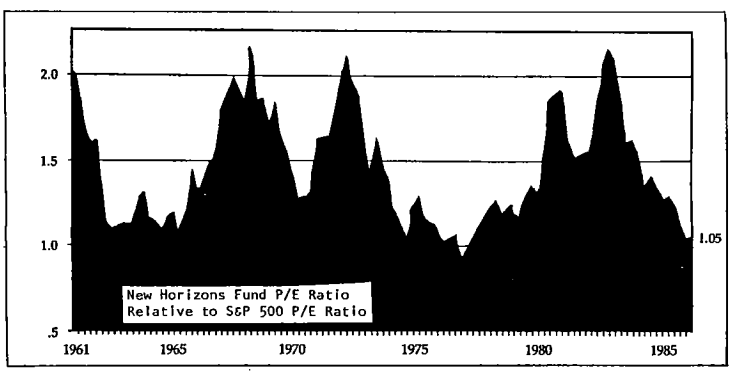


(3) The big stocks will do little (or at least lag) while the secondary stocks will provide the major part of the bull market action from this point on. I believe there's a fair chance of this occurring — particularly if breadth stays as strong as it is.

(4) We could have a market correction which would push the undervalued percentage higher again, say to the 20% or 25% level, following which the bull market would again roar higher. I say there is a fair chance of this occurring too.

And then there is the bearish possibility. It is that the 13% undervalued figure of last September was a bearish signal, and those looking for a major extension of this bull market are whistling in the wind. What do I think the odds are of this being the case? I would say the odds are 40/60.

What about the secondary stocks and the junior growth stocks? Is this bull market fated to be kind only to the blue-chip issues? Glad you asked. Here's a chart published by the Smart Money advisory service (6 Deer Trail, Old Tappan, NJ 07675). The chart shows the price/earnings ratio of the New Horizons Fund as a ratio of the P/E of the S&P 500. The New Horizons Fund is chock full of lower-priced and junior-growth stocks.



When people are excited about the market and are in a mood to speculate, they tend to rush into the kinds of stocks represented by the New Horizons Fund. At such times, the ratio on this chart can shoot up to 2.0 or more. But when the public is disinterested in the exciting, smaller growth stocks, it forsakes the New Horizons Fund in favor of the more stodgy S&P 500 type shares. At such times the ratio may drop (as it now has) back towards 1.0. In other words, a ratio of around 1.0 means that the public is giving the little, growth stocks the same valuation as the sluggish highly-capitalized stocks represented by the S&P 500.

Writes Yale Hirsch, publisher of Smart Money, "What's important — exciting -- compelling and overwhelming, is that the ratio is now as bullish for small growth stocks as it was in 1966 and 1976, years that marked the launching of a huge surge in little stocks."

Conclusion: With the tremendous breadth advance of early January and the surge in the Amex and NASDAQ indices, it is possible that the move into lower-priced, secondary and junior-growth stocks has begun. If so, this trend should be very visible by spring. Watch the Amex Average. Watch Barron's Low-Priced Stock Index. Want to get in on a junior growth stock rise? Buy Price's New Horizon Fund (1-800-638-5660).

NOTES & QUOTES: Mark Twain called them "the only distinctly American native criminal class." Of course he was referring to the US Congress. Some wag once said, "Thank god we don't get all the government we pay for." Well, Congress is back in session and the mischief is ready to start again. The Washington follies began as President Reagan ("the great economizer") came out with the first trillion dollar budget, and the boys in Congress promptly termed it dead on arrival. Undoubtedly, Congress wants to do its own version of "break the bank." The Russell solution (if I were president), a 10% cut across the board in EVERY department and a national sales tax of 2%. Boy, would that melt the deficit — but, but that would be "unfair."

* *

I guess I'm allowed to be just a little bit skeptical, aren't I? In the Wall Street Journal survey (Jan. 5), 35 top-notch economists are polled. For the first half of 1987 only one economist saw GNP turning negative (down 2.0% according to Yardeni of Prudential-Bache). For second half 1987 all 35 saw positive GNP growth (the average guess was up 3.2%). Can 35 economists be right? Are the odds for a recession in 1987 at zero?

* *

I love Bob Prechter's work, and years ago I encouraged him to go into this business. But I can't remember the last time I saw an investment advisor featured on the COVER of Barron's. As you know, Bob sees the Dow up around 3,600 during 1988 or thereabouts -- then a horrendous collapse. I hope Bob's right about the first part of his prediction and wrong about the second part. Nevertheless, it bothers me that Bob and the Wave Theory are becoming so widely accepted.

* *

Population trends: China now accounts for 21% of the entire world's population. China has an aggressive one–child rule. If a Chinese woman has one child and becomes pregnant again, the state will demand an abortion. ... In Russia, the pressure is on to

increase the population, and a special state medal ("Mother Heroine Award") goes to women who produce 10 or more children. Russia just increased the paid maternity leave from 6 months to a year and a half.

Latin America's birth rate was 50% above Asia's in 1985 at 2.3% -- but happily the Latino birth rate is slowing down. ... Africa, where starvation is widespread, had the world's highest birth rate. The sub-Saharan birth rate is 3.5%. If the current birth rate in Kenya (population 22 million) continues to the year 2065, Kenya will have a population twice the size of the US population (which is now 240 million).

Most of Europe has low birth rates, with Eastern Europe at 1%. In Hungary and East Germany the birth rate is below 1% which means that they are losing population. West Germany, Denmark and Austria are also shrinking in population. ... Canada and the US have 1% birth rates but their rates are expected to drop to 0.6% by the year 2000. Without immigration, Canada and the US would both be shrinking in population. In the US, the Latino and Asiatic population is booming while the Caucasian population faces shrinkage.

* *

Ever dreamed of owning a professional football team? Don't make a move until you read "First Down and a Billion," the new book by former San Diego Charger owner Gene Klein (($17.95, Morrow). Klein gives you the inside story from the owner's standpoint. Klein bought the Chargers for $10 million and sold them for $80 million. In between, he had two heart attacks, numerous law suits, thrills, frustrations, fits of anger, and moments of bliss.

Klein notes that the upcoming contract with the networks should be interesting. The last NFL contract was for a fat $2.1 billion, and this money practically supported the 28 teams. But the upcoming 1987 contract will be rough, since all three networks are now being squeezed, and new managements at the networks are cutting expenses to the bone. In the meantime, NFL salaries have run through the roof. Predicted result: rough times ahead for the NFL (unless they go to pay TV).

* *

Speaking of football, do you bet big money on the games? It's a tough way to get rich. For instance, Jimmy "The Greek" Snyder is a recognized "expert." His record this year is 0 for 3 in the playoffs and 35% success against the point spread for the year. Oh well, you can always call it fun.

* *

The debt society: The big farm expansion boom and land boom of the 1970s left US farmers owing the banks $200 billion. At least 25% of that will never be repaid. Small farmers since then have been killed. Since 1975 the number of farms with sales of less than $20,000 has fallen 60%. Young people are no longer choosing farming. Only 6% of people under 35 years of age own farms, while 30% of all farms are owned by people over 65.

* *

Last year US students owed $9.8 billion under various government loan programs, triple the figure of a decade ago. The government says guaranteed student loans now cost $2 billion a year in interest subsidies and $1 billion a year in defaults.

* *

One day back in 1942 I went up to Harlem to a bar called Minton's on 116th Street. The place was frequented almost entirely by blacks. My high school friend and I were the only whites in the place. A jam session was in progress (it was 1AM in the morning). Dizzy Gillespie was there, Coleman Hawkins was there, Benny Carter was there, and on the piano was a strange, thin black man, wearing a skull cap and a sweater. He was playing equally strange one-fingered piano -- I had never heard anything like it.

"Who's the guy on the piano?" I asked a man next to me. He answered, "Man, that's Theloneus Monk, he's here all the time." I shrugged and said, "He sure plays different stuff." After the session I talked to Monk. Little did I know it, but that piano player was one of men who changed the face of jazz. Last week I read that a $14-million Thelonius Monk Center for Jazz Studies would be opened in Wash. DC. Monk would never have believed it.

HELP! I get a lot of letters here each day, and many of them are very interesting and informative. I love to read these letters, but I have a confession to make. I just haven't got the energy to answer most of them. Now mind you, that doesn't mean that I want people to stop writing. It simply means that I can't respond to most of the letters.

Aside from encouraging letters, critical letters, happy letters, angry letters, I get letters asking for advice -- all kinds of advice. People send me complete lists of the stocks they own, bonds they own, their kids' portfolios, their grandfather's insurance policies, you name it. Readers want to know what I think of their stock selections, have they done right by their mothers, should their neighbors own IBM, etc.

I never presented myself as a personal portfolio manager or a "Mr. Fix-it," and it's sort of embarrassing to me to have to beg off. But the truth is that I just can't solve everyone's investment problems -- nor do I have the energy to try. You see, that's a whole different business, and if I tried to solve all my subscribers' problems, I'd probably have to drop Dow Theory Letters and become a sort of "financial Ann Landers."

A lot of people probably wonder why the devil I don't have more time. "How does that jerk spend his day? Doesn't he get tired, just lolling around the beach at La Jolla?" So to dispel any misconceptions, here's a brief look at how I spend my days out here. I get up every day at 3:30AM (that's no misprint). I shave, I put some decaf on for Faye, then I go to the front door and pick up the New York Times, the Wall Street Journal and USA Today (amazingly, they're all delivered very EARLY out here). I read these three papers thoroughly until about 5AM. Then I go out and jog (with a radio to my ear) for about 20 minutes. Believe it or not, I like running in the dark. When I return I pick up the San Diego Union and the LA Times, and I read these while I have breakfast. At around 6AM I wake up Faye (lately she's been surprising me by waking up herself), and we turn on Financial News Network.

Faye and I get to the office at 7AM, and I start thinking or writing (hopefully, both). I read Investors Daily and the Christian Science Monitor and I look through the mail, read letters, investment material, and then back to writing. My office is a block away from Hutton, so I'll usually walk over there about 10AM (1PM, NYC time) and check the market. Next, it's back to work until around mid-day. Then we go home, have a low-calorie lunch, and it's back to serious reading. I go through the advisory services, the magazines, reports, etc.

At 3PM I get the market closing, and I do my daily charts. I'm pretty tired by now, so I try to grab a half-hour nap. At 4PM my two youngest kids come home from school. Paula, my ex-wife, lives about 5 minutes away, so I run over there to see Lauren, age 6, and Ryan who is 9. They have a lot of energy, and I pretend I do too. By 5 or 5:30 I'm bushed.

Maybe I should explain, because this usually confuses people. I have two ex-wives, and I'm on good terms with both of them. I may be a bit unorthodox, but I could never see the point of blaming or hating someone you've loved and lived with for years. A man is responsible for his actions, NOT his feelings. If, after five or 10 or 20 years of marriage, I don't want to live with a woman or a woman doesn't want to live with me, it's sad, it's really tragic, but why resent or despise the other person? "How dare you feel that way! How dare you not want to live with me!" The anger usually stems from a collapse in the ego of the one who is left. But it needn't be that way. You (or she or he) are the SAME person whether you're still living with your spouse or whether your spouse has moved out. If the poor sap doesn't appreciate you, doesn't want to live with you, why hell, it's his loss.

At any rate, I'm good friends with my ex-wives, and there are no hard feelings messing up our friendships. I might as well say this: resentment (the usual aftermath of divorce) is the WORST of

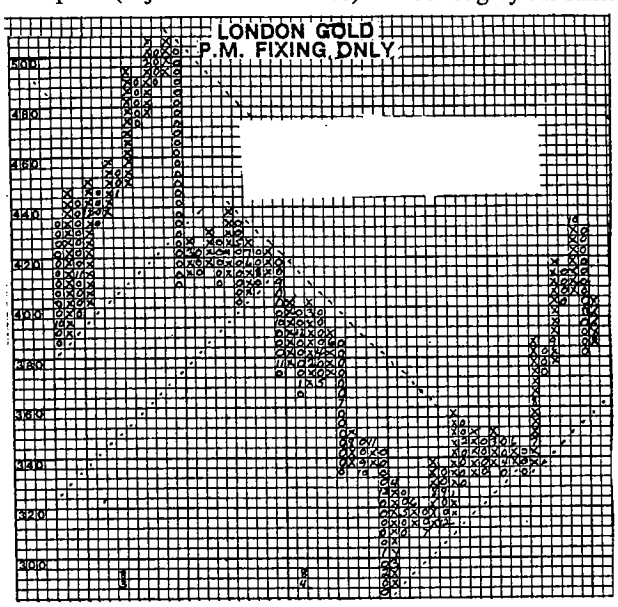
all emotions. Resentment never ends. It's the bulldog of emotions. Like the bulldog, the resenter never bites through and never lets go. If you resent somebody, please take my advice -- drop your resentment. Resentment is guaranteed to POISON your life (by the way, that could be better advice than all the investment advice I could ever give you).

How did I get off on this tangent? Well, back to my day. By 5PM I'm kind of tired. Around 6PM Faye and I either have some dinner home or we go out for dinner. After dinner (we're both early eaters), we might take a walk around town, and then head home. At home I try to relax, talk to Faye, read, maybe watch a VCR movie (I've given up going to movie theaters, the VCR approach is so much easier), and then by 9PM we're both in z-z-z-z land..

At any rate, I started this weird piece by saying that I can't answer all those letters. And I wrote this as my excuse to show you why I can't answer all the letters. I've meandered all over the place, and so I better just end the piece here while I'm still ahead. Adios.

GOLD AND THE WORLD OF TANGIBLES: The US is swimming in liquidity, and it is probably this phenomenon, more than anything else, that is pushing the stock market up. Burgeoning liquidity is also "nudging" gold and other collectibles higher. Certainly, global liquidity is having an explosive effect on the world of art, where auction prices are bringing gasps of disbelief from veteran collectors. Coins have been solid performers for the last few years, and even stamp prices have hardened over the last year. Top-grade diamonds are up almost 20% from last year's low, and giant DeBeers Cons. Mines (which controls over 80% of the rough diamond market) has just announced that diamond sales of all kinds are up 40% over last year.

In the last two Letters I tried to explain why intelligent investors should buy and hold gold. Gold is a tangible, which like all tangibles earns no interest. Nor does gold provide constant pleasure the way a Matisse or a Picasso might. But gold has a few advantages over paintings and antiques and diamonds and stamps. (1) Gold is portable, (2) gold does not get damaged through age, fire, storm, or war, (3) gold does not go out of fashion, as many of today's popular artists will, (4) gold's price is quoted every hour of the day and night, and (5) gold's worth is agreed upon instantly around the world. A Japanese dealer's price and a New York dealer's price (adjusted for currencies) will be roughly the same.

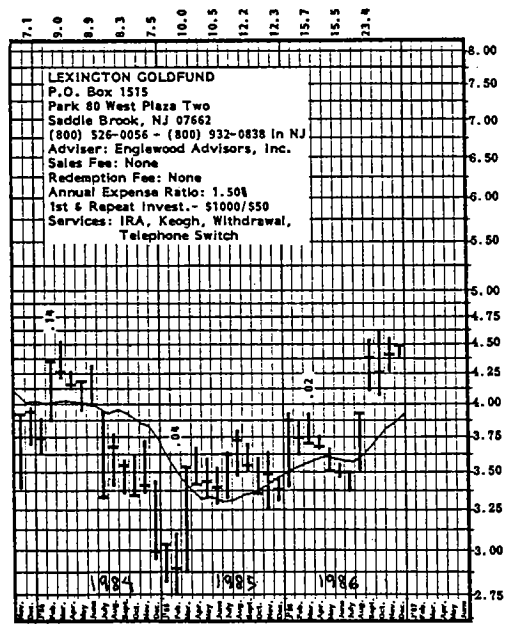


Let's look at the P & F chart of gold. A bull market began for gold at the February 1984 low of 284. Since then, gold has been rising rather erratically, with an upside burst last year which carried the metal to a high of 436 in October. Following the October explosion, the whole metal complex calmed down, and gold sank back to the 384 level. Since then, gold has floated up to around 400, and that takes our story to the present.

Current support on the P & F chart comes in at 360. On the 144-day (exponential) moving average, gold's support is at 390. If you are looking to make a quick killing, I think you're going to be disappointed in gold, but I do look for the metal to remain in a bull market. I consider gold under 400 to be in the "buy zone," the zone for accumulation and holding. As I've told subscribers all year, I personally am buying gold coins on a fixed-dollar amount each month.

People still ask me where they can buy gold coins. Many banks handle the coins as do many brokers. Or you can call my good friend, Jim Blanchard down in New Orleans at 800-535-7633 or Ruffco in Utah at 800-722-7833 or Investment Rarities in Minneapolis at 800-328-1860 or Monex in Calif. at 800-432-7013. There's nothing wrong with checking prices at various dealers -- in fact, I recommend it. At today's prices, I suggest buying the Krugerrands; the Krugies sell for only a few bucks over gold content

People also ask me about buying the gold shares. I've cooled off on mutual funds of late, but for gold I would recommend a no-load fund. A good one is the Lexington Gold Fund, and you can see on this chart that this fund has been acting quite well (chart courtesy of Growth Fund Guide, Box 6600, Rapid City, SD 57709).



NEXT MAILING: Jan. 28

LATE NOTES: The week ending January 9 was historic in its upside power and intensity. Based on the Wilshire 5000 index the week saw an amazing $140 billion added to US market values! Skeptics who would like to believe that the 1987 surge was just a result of the "lifting of pressure following tax selling" might ponder this: Most of the major US composite averages and indices ended the week at new highs. Even the lagging AMEX index closed within a point of a new high. The Europe/Australian/Far East composite closed the week within 1% of its bull market high, as did nine foreign indices including Canada, France, Hong Kong, Japan, Spain, Mexico, Switzerland, Britain (was all this brought on by a cessation of US tax selling?).

Everyone is now waiting for "the correction," and I have no doubt that somewhere ahead the market must and will correct. But this is a bull market, and once again it has delivered its bullish message. The message is this: If there are to be surprises, those surprises will be on the upside. The "buy 'em and hold 'em" philosophy that I have steadfastly advocated has been the market strategy that has garnered the profits. I continue to stress this same philosophy (stocks to buy on reactions, JP Morgan, Philip Morris, American Express, Tri-Continental -- all on the NYSE, all previously recommended).